

## Mayoral Combined Authority Board

24 January 2022

### South Yorkshire Renewal Fund: Progress Update

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<b>Is the paper exempt from the press and public?</b>	No
<b><i>Reason why exempt:</i></b>	Not applicable
<b>Purpose of this report:</b>	Governance
<b>Is this a Key Decision?</b>	No
<b>Has it been included on the Forward Plan?</b>	Not a Key Decision

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#### **Executive Summary**

This report sets out the progress made to-date on the development of the South Yorkshire Renewal Fund.

It is intended that the Renewal Fund forms the basis of a sustained long-term investment strategy for the region, supporting local determination in the use of funding and addressing structural delivery constraints.

Development of the fund is framed by both the central South Yorkshire aspirations of delivering investment that supports inclusive, green, economic growth and the realities of the wider funding environment for the MCA and its partners.

Whilst work continues to develop a number of key principles that will shape how the Fund is deployed and how partners work together, this report recommends a phased approach to the use of gainshare.

In the near-term the report recommends the release of resource in a manner which complements rather than competes with existing investment activity, enabling the region to efficiently invest in the full breadth of its aspirations.

The report proposes to release revenue to support the adoption of a new lifecycle funding approach that seeks to address long-standing capacity constraints that have held back both the development of high-quality, delivery-ready investment propositions and the timely delivery of existing funded programmes. Investment now in capacity, along with changes to ways of working, provides the foundations for future delivery.

The report further proposes that, in the near-term, gainshare capital be reserved to exploit emerging opportunities that cannot be resourced from available government funding. This approach seeks to retain some flexibility without displacing capacity from the existing delivery challenge.

Furthermore, this report proposes that this initial investment in capacity and development be used to seed longer-term investment through 'sub-funds' shaped by the MCA's priorities, such as investment in place, public transport, and net zero ambitions. These funds would be resourced from the following 25 years of gainshare and accelerated where appropriate via borrowing.

The report recognises the significant ongoing collaboration with partners to shape the next stage of activity and proposes to bring an update to the Board in March.

### **What does this mean for businesses, people and places in South Yorkshire?**

The South Yorkshire Renewal Fund will provide the platform for sustained investment into the region. The operation and deployment of the Fund will shape how, where, and to what value the region invests in its aspirations.

### **Recommendations**

1. Note the work to develop the Fund to-date;
2. Note the proposed phased approach to the release of Gainshare funding;
3. Note the proposed adoption of a lifecycle funding approach to investment;
4. Approve the proposal to release the Project Feasibility Fund to support the design and development of high-quality investment propositions that meet the conditions of supporting inclusive, green, economic growth

### **Consideration by any other Board, Committee, Assurance or Advisory Panel**

Choose a board/committee

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## **1. Background**

- 1.1 Since its inception in 2014, the MCA's approach to investment in South Yorkshire has largely been determined by decisions made in Whitehall. The timing, quantum, nature, and conditions of grant awards has shaped the investment the MCA could make.
- 1.2 The lack of local determination in where and how investment has been targeted has been compounded by a decade of austerity that has prejudiced the region's ability to design and develop quality investment proposals at risk.

- 1.3 These issues have left the region dependent on and reactive to short-term, unpredictable government funding cycles, often designing, developing, and delivering activity within unfeasible timeframes imposed upon it.
- 1.4 Devolution offers the chance to break out of this cycle. As part of the South Yorkshire Devolution agreement, government agreed to a long-term flexible and non-ringfenced revenue and capital funding commitment worth £30m annually for 30 years. We refer to this as our gainshare funding.
- 1.5 Complemented by borrowing powers, this long-term, flexible commitment affords the region a generational opportunity to shape investment into South Yorkshire through local determination.

#### The South Yorkshire Renewal Fund

- 1.6 In March 2021, the MCA Board agreed to the creation of the South Yorkshire Renewal Fund (SYRF) - a “single pot” into which all funds available to the MCA will be held and then deployed, in accordance with the Investment Strategy.
- 1.7 This resource should allow the SYMCA to act strategically, matching the right funding to the right projects, and considering long-term interventions that address the fundamental and structural challenges in the local economy. Moreover, when funding is aligned to changes in ways-of-working, it offers the region the chance to address the structural weaknesses that affect the quality and pace at which we deliver.
- 1.8 The principles of the SYRF were agreed by the Board in March 2021:
  - **The SEP is the starting point** – our investment should support the central aspirations of inclusivity, economic growth, and net zero/decarbonisation
  - **Economic impact** - we need to build a better, stronger and more resilient economy
  - **Social Impact** - investment to create jobs and grow the economy must also deliver greater inclusion for people and communities
  - **Sustained Investment** - gainshare is not enough to fund all our needs on a sustainable basis. We can use gainshare to attract other more sustainable investment, infill where necessary, and seek to sustain spending power through sharing in the value our investments create
  - **Place** – we will invest to create vibrant places where people want to live, and contribute to our net zero ambitions to deliver sustainable growth
  - **Equity** - every area will get an equitable share of programme funds, but not necessarily at the same time and not in the same way, reflecting their priorities
- 1.9 Since the last report to the Board a significant amount of collaborative work has been undertaken through an Investment Strategy Leadership Group to agree the scope, outcomes and priorities that bring together council led place-based plans and the region’s Strategic Economic Plan. This workstream has begun to dovetail with the Business Process Reengineering workstream, ensuring that consideration of ‘where’ investment should be focussed is supported by efficient mechanisms for ‘how’ that investment be affected.

- 1.10 A timeline of key tasks have now been agreed amongst this group to allow proposals to be brought back to the Board at the March Mayoral Combined Authority meeting.

## **2. Key Issues**

- 2.1 In the development of the Renewal Fund to-date a number of near and medium-term issues that reflect the current operating environment have been considered. These issues help shape consideration of how gainshare can complement existing funding streams, address known constraints, and support the development of the Fund.

### **2.2 Current Funding Environment: Lack of Revenue Resource**

The MCA's investment budget is dominated by ringfenced government capital funds like CRSTS, leaving very little flexibility to pursue other crucial priorities that require revenue investment.

Unlike its peer group, the MCA's gainshare funding is weighted towards capital funding on a 60:40 (£18m/£12m) capital to revenue split, whilst it does not benefit from a business-rates revenue retention pilot like other MCAs. This places it at a comparative disadvantage. Accordingly, how the region chooses to deploy its revenue allocation becomes of critical importance.

This manifests itself most readily in determining a balance between deploying revenue funding towards revenue activity such as early stage ideation, feasibility and design activity, or revenue programmes of activity, and deploying revenue funding to servicing the costs of capital investment financed from borrowing.

### **2.3 Delivery Capacity**

As noted in other reports to this meeting, partners across the region are currently experiencing significant challenges in designing, developing and delivering the existing body of capital and revenue programme activity. This issue is manifesting itself in c. £110m of capital slippage in the current year.

This issue is likely to be exacerbated in the new year as new funding coalesces with existing slippage to provide the largest ever in-year funding package for the region.

Partners have provided a consistent message on the need to ensure that new SYRF investment is timed to complement rather than compete with existing investment activity.

### **2.4 Controls on Borrowing**

As previously reported to the Board, the MCA has been informed that a precondition of borrowing powers is the agreement of a borrowing cap each year with HM Treasury.

This provision represents a control from HM Treasury on the MCA's ability to draw down finance that local authorities are not subject to.

In practical terms, whilst funding decisions made through gainshare will be the MCA's to make, financing will be controlled by HM Treasury. This reinforces the

need to ensure that the MCA is judicious in how it affects financing decisions, taking on debt only for the best schemes.

## 2.5 **Proposals**

This report has noted that further progress needs to be made on a number of issues. However, noting the wider considerations detailed previously it offers the Board a number of linked proposals that will support the continued development of the Fund and the distribution of resource to priorities in the current and new financial year.

These proposals are focussed on four principal points:

1. There is a need to be pragmatic in considering our ability over the immediate term to deliver further capital investment beyond existing funded programmes;
2. There is an opportunity to exploit the flexibility gainshare affords us to infill around existing government funding streams to ensure we support the full breadth of the region's aspirations;
3. Flexibility to bring forward early deliverable schemes for investment at a pace that reflects MCA and individual local council circumstances; and,
4. There is an opportunity to re-shape how the MCA supports investment through the adoption of a lifecycle funding model that should better ensure that our delivery mechanisms can match our ambition.

### Phased Investments

2.6 Principally, the report proposes a phased approach to the deployment of gainshare resource. This proposal reflects the potential for record levels of funding in the forthcoming financial year and the acute delivery challenges that are faced by partners across the region in the near-term.

2.7 This phasing approach is centred on the simple proposal that over the next two years (2022/23 – 2024/25) the region focuses the majority of its capital efforts on the delivery of existing funded programmes, and focuses its new-year gainshare revenue resource on the creation of additional capacity, skills, and resources that can design and develop a new wave of quality investment propositions that could be matched to future government funding cycles or be resourced from gainshare resource.

2.8 This proposal offers the opportunity to break the reactive nature of the region's responses to government funding, ensuring that – like other MCAs – we have delivery ready prospectuses of South Yorkshire investment opportunities, and teams ready and capable to affect that delivery.

2.9 At-risk revenue investment in project feasibility now will seed the proposed second capital focussed phase of investment with quality schemes. This second phase could be funded from elements of the gainshare resource due to the MCA from the following 25 years (£750m).

### Early Deliverable Schemes

2.10 Linked to the phasing approach, this report further proposes that gainshare capital resource over the next two years be reserved to exploit emerging opportunities or those that are ready to deliver now. This proposal reflects the need to avoid exacerbating immediate delivery challenges where possible, but leaves flexibility to

deploy funding should partners be able to bring forward schemes at pace in the new financial year.

- 2.11 This report proposes that in line with the adopted gainshare principles, any investment is made through the most efficient means available, supporting wherever possible a financial return to the Renewal Fund that can be reinvested into other priorities.

#### Lifecycle Funding

- 2.12 MCA funding models currently focus resource at the physical delivery stage of a scheme's life.

- 2.13 This approach, coupled with the inability of partners to act at-risk, has led to neglect of the critically important ideation and pre-capitalisation design stages. In turn, the lack of developed investment propositions is a key impediment in the delivery of activity and constrains the region's ability to think big, differently, and beyond the next funding cycle.

- 2.14 This report proposes that the MCA redresses this issue through the adoption of a lifecycle funding model. This would see each stage of a project's life funded from an appropriate source, ensuring that it has adequate resource to grow through design, development and into delivery.

- 2.15 To affect this proposal in the immediate term, this report seeks approval from the Board to release the existing Project Feasibility Fund (£3.60m) in advance of releasing further gainshare revenue into the new financial year.

- 2.16 Releasing revenue resource now will support the revitalisation of ambitious at-risk project design and development within the region, leaving us well placed to ensure that there are delivery-ready schemes available as the current capital programme begins to abate.

- 2.17 It is proposed that this initial release is affected on a pilot basis via a process developed from within the officer working group, supporting learning on what works best ahead of further release of gainshare resource. This report proposes that the conditions of release are limited to a commitment that the funding will be used to support ambitious propositions that meet the core aspirations of:

1. Economic growth
2. Inclusive growth
3. Net Zero

#### **Next Steps**

- 2.18 This report notes that further work is underway through the region wide officer group to continue the development of core principles. These principles will be essential in supporting the deployment of Phase 2 funding and establishing ways of working.
- 2.19 Collaborative work is also underway to develop a common framework for identifying transformational projects through local investment plans. These plans are being developed to achieve a degree of commonality and standardisation that should support region wide planning and investment sequencing.

- 2.20 In addition to this activity, work is also underway to develop the Financial Investment Framework previously commissioned by the Board. This work will support the provision of a decision-making methodology and an investment toolkit to help the Board make decisions on how best to affect efficient investments. This will support the Board's key principle of ensuring sustained investment. These principles will be shared with the Directors of Finance ahead of proposal to the Board in March.
- 2.21 Work also continues with HM Treasury to agree a new borrowing cap for the year. As part of this activity the MCA is also developing principles that will shape the circumstances under which the MCA will take on debt to support accelerated investment. These principles will be shared with the Directors of Finance ahead of proposal to the Board in March.
- 2.22 The Business Process Re-engineering workstream continues to identify how the MCA and partners can best pool time, resource, systems, and effort to ensure delivery mechanisms support our ambition. The implementation of a new Programme Management System and review of the adopted Assurance Framework is well progressed, informed by fruitful collaboration.
- 2.23 The officer working group is currently agreeing a work plan focussing on core activity that needs to be completed by the end of the current financial year.
- 2.24 This group will present progress to South Yorkshire Chief Executives and seek direct contributions from MCA Members in advance of a further report to the Mayoral Combined Authority in March 2022.

### **3. Options Considered and Recommended Proposal**

#### Option 1

The Board could opt to defer any decisions until all the work underway is complete. This would allow the Board to have a fuller view of all activity and the conclusions thereof.

This will likely delay progress in establishing the Project Feasibility Fund and the deployment of project lifecycle resource. Investment in transformational business growth opportunities may also stall.

#### Option 2

This option refers to the approach set out in section two, especially from 2.7 to 2.17. This will ensure that lifecycle funding can be made available, transformation business growth opportunities can be considered, and the phased approach can also be implemented.

Option 2 is recommended.

### **4. Consultation on Proposal**

- 4.1 None.

### **5. Timetable and Accountability for Implementing this Decision**

- 5.1 Subject to the Board decision officers can begin the process of releasing the Project Feasibility Fund over quarter four of the current financial year.
- 5.2 The report notes the proposals to provide a further update to the Board in March.

## **6. Financial and Procurement Implications and Advice**

- 6.1 This report seeks approval for the release of the Project Feasibility Fund and offers proposals on the release of future year gainshare resource.
- 6.2 The Project Feasibility Fund (£3.60m) is available for immediate deployment.

## **7. Legal Implications and Advice**

- 7.1 None.

## **8. Human Resources Implications and Advice**

- 8.1 None.

## **9. Equality and Diversity Implications and Advice**

- 9.1 None.

## **10. Climate Change Implications and Advice**

- 10.1 Not Applicable.

## **11. Information and Communication Technology Implications and Advice**

- 11.1 Not Applicable.

## **12. Communications and Marketing Implications and Advice**

- 12.1 None.

### **List of Appendices Included**

**None**

### **Background Papers**

None